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COMMERCE FOR ITA COBERG
FOR DEPUTY SECRETARY SAMPSON FROM THE AMBASSADOR

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SUBJECT: SCENESETTER: VISIT OF DEPUTY SECRETARY OF COMMERCE DAVID A. SAMPSON

REF: USDOC 178

¶1. (U) Greetings and welcome to Oman. The Embassy staff and I look forward to your arrival on February 5 to promote the U.S.-Oman Free Trade Agreement in the context of our overall bilateral relationship. In addition to your planned participation as the keynote speaker at an Oman Chamber of Commerce/Muscat American Business Council luncheon, we will seek meetings with the Deputy Prime Minister for the Council of Ministers, Minister of National Economy, Minister of Commerce and Industry, Executive President of the Omani Center for Investment Promotion and Export Development (OCIPED), and Chairman of the Oman Chamber of Commerce and Industry (OCCI).

Economic Overview

¶2. (U) Oman's economy is based primarily on petroleum and natural gas, which is expected to account for 79% of the government's revenue in calendar year 2007. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels, though Ministry of Oil and Gas officials are optimistic that over 35 billion barrels remain to be recovered. The main oil producer is the government majority-owned Petroleum Development Oman (PDO, in partnership with Royal Dutch Shell), which controls 90 percent of reserves and the lion's share of total production. U.S.-owned Occidental Petroleum is the second largest producer in Oman, and has committed to investing over $3 billion over the next several years in enhanced oil recovery efforts in mature fields.

¶3. (U) High oil prices in 2006 led to a projected Omani budget surplus of $6.4 billion and GDP growth of 16.8 percent, despite declining oil production since 2001. The 2007 budget, announced on January 7, projects continued significant government spending on industrial and tourism projects. The government intends to spend $ 3.74 billion more than in the past year on investment-related expenditures, with $1.53 billion allocated to enhancing oil production capabilities, $1.1 billion on gas production capabilities, and $1.3 billion for various ministerial initiatives. The hefty investment budget reflects continued government emphasis on reversing declining oil production rates, locating additional pockets of gas reserves, and promoting diversification of the economy. Under the government's seventh Five-Year Plan, to cover 2006-2010, the average investment rate over the five-year period is estimated to be 24 percent of GDP. Thanks to windfall oil prices and strong tourism growth, Oman's economy is currently

running at a brisk pace.

¶4. (U) Oman actively seeks private foreign investors, especially in the industrial, information technology, tourism, and higher education fields. The largest single industrial investment target is the port city of Sohar, near the UAE border. It has witnessed over $12 billion in government investment alone in the financing of several industrial projects, including a petrochemical plant (with Dow Chemical), a steel rolling mill, a fertilizer plant, and an aluminum smelter (being built by Bechtel). Investors transferring technology and providing employment and training for Omanis are particularly welcome. The permitted level of foreign ownership in privatization projects is 70 percent, with up to 100 percent in certain cases. The government has proceeded with several major privatization programs, including power generation projects in Salalah, Barka, Rusayl, and the Sharqiyah region.

Free Trade Agreement

¶5. (SBU) With the FTA ratification process complete, we are engaged with relevant Omani government agencies to ensure that all pertinent regulations pertaining to labor, intellectual property, telecommunications, customs, transparency, and environment are FTA-compliant in order for the Agreement to take effect. We are also planning to offer technical assistance programs for labor and customs administration, in addition to the intellectual property and environment programs already underway. We are hopeful for the FTA's implementation by March.

¶6. (U) The Omani government is now promoting the FTA

domestically. On December 6, the Embassy, in coordination with the Ministry of Commerce and Industry, Omani Center for Investment Promotion and Export Development (OCIPED), and the Oman Chamber of Commerce and Industry (OCCI), sponsored a successful "2006 FTA Awareness Conference." The one-day event, which drew approximately 300 attendees from the public and private sector, provided Oman's business community with the opportunity to learn more about the expected benefits of the FTA in promoting economic growth, creating employment, benefiting consumers, and fostering transparency.

¶7. (U) During the conference, Commerce and Industry Minister Maqbool bin Ali Sultan, OCCI Chairman Salem al-Ghattami, the Ambassador, and Assistant USTR for Europe and the Middle East Shaun Donnelly offered perspectives on how the FTA could spur greater trade and investment through new opportunities made possible by revised regulations under the FTA. Representatives from GE, Pfizer, Parsons, Lucent, Microsoft, and Booz Allen Hamilton, among others, also discussed how the FTA could encourage increased sales and investment opportunities by reducing tariffs, promoting competition, securing intellectual property, and ensuring a predictable, legal framework for trade and investment.

¶8. (U) Minister Maqbool, in addressing the local audiences, noted that concluding the FTA with the United States was "no surprise," and that it was a result of the "natural process and the rational development of the Sultanate's economic and commercial vision." In addition to the FTA's advantages for Oman in the services sector, Maqbool expressed his view that the Agreement would attract U.S. investment in the transport, electricity production, real estate, and tourism sectors. He further remarked that the FTA would open export possibilities for new plastics and aluminum production facilities once they come on line over the next four years. Maqbool commented that Oman would continue to expand its trade links by negotiating, through the GCC, free trade agreements with the European Union, Turkey, China, Singapore, Australia, India, and Pakistan.

¶9. (SBU) The Embassy is continuing its collaboration with the government on FTA promotional activities. Both Minister

Maqbool and National Economy Minister Ahmed bin Abdul Nabi Macki will participate in a multi-state promotional tour of the United States during some time in 2007, with proposed stops in New York, Chicago, Houston, Los Angeles, and Washington. In formulating such a tour, the Embassy has stressed the importance of the Omani delegation bringing a clearly defined message for the American business community and the broader American public. To this end, we are in contact with the Business Council for International Understanding (BCIU) and other U.S.-based organizations to assist Oman in developing a framework for the tour, as well as a public relations strategy.

¶10. (U) The Omani government recognizes the importance of the FTA in raising the Sultanate's profile internationally. In addition to the direct U.S. investment that the FTA will attract, Oman has taken note of the spillover benefits that would be equally important. For example, Dow's investment in a petrochemicals complex had already spurred an additional $350 million in investment from India. To attract further foreign interest, Oman will continue to promote itself as a country that adheres to the rule of law and facilitates the ease of doing business.

Tourism Development

¶11. (U) With Oman aggressively marketing itself as an environmentally conscious tourist destination, international investors are taking advantage of significant improvements in local infrastructure to develop ambitious new tourist projects. U.S. construction and financial firms are joining regional and international consortia seeking to capitalize on the region's annual 6.5 percent growth in tourism. Investors hope to lure 3 million visitors annually with resorts like the $160 million Barr al-Jissah Resort and Spa (already fully operational), the $800 million Wave project, and the massive $15 billion Blue City development just north of Muscat.

¶12. (U) In 2004, Oman welcomed 1.5 million tourists, generating revenues of $284 million. Through aggressive marketing campaigns and improved infrastructure, Oman hopes to triple the industry's one percent contribution to GDP. The Omani government estimates that the tourism sector could eventually create over 114,000 jobs. To achieve these ambitious figures, the Ministry of Tourism has spent $30 million to market the country internationally through 2005.

¶13. (U) The Ministry of Tourism and government-owned Oman Tourism Development Company, now called OMRAN, are moving forward on plans to construct 16 hotels and a convention center within the next five years, which will alleviate the chronic hotel room shortages in Muscat that will worsen in 2007 with the closure of two five-star hotels for remodeling. OMRAN primarily serves as the government's investor in tourism projects, either as the sole investor in projects such as the development of a Muscat beachfront resort and convention center complex, or in partnership with the private sector, in which it takes a 30% stake in a silent capacity. The Wave project has already broken ground, with U.S.-based Turner Construction serving as the project manager. This development will represent the first opportunity for non-GCC residents to purchase freehold property. Multi-hotel complexes near the towns of Yiti and Sifah are also in final planning stages, and the government is planning to finish a three-hotel convention center complex by 2010. U.S.-based investor Frank Drohan of Contact Sports.net is interested in leasing land from the Ministry of Tourism to develop a theme park complex along the beach north of Muscat, entitled "Omagine."

¶14. (U) Complementing Oman's development as a tourist destination is Gulf Air's recent decision to consolidate its hubs at Muscat and Manama after the withdrawal of the Abu Dhabi emirate from the consortium. As a result, Gulf Air has rolled out new service from Muscat to Paris, London-Heathrow,

Bangkok, Jakarta, Kathmandu, Karachi, Mumbai and Kuala Lumpur. The government is finalizing plans to build a new terminal at Muscat's Seeb International Airport by 2011 and to construct new airports at Sohar, Ras al-Hadd, and Duqm.

Port Expansion

¶15. (U) Two of Oman's principal ports, Sohar and Salalah, are aggressively moving forward on expansion of their respective operations. The Port of Sohar, a 50-50 joint venture between the Sultanate and the Port of Rotterdam, will anchor the $12 billion industrial development planned for the region. Oman is confident that the Port's advantageous location outside the Strait of Hormuz and within 300km of three large gas reserves will lend to its success. In addition to its berths for industrial liquids, Sohar is positioning itself as Oman's largest container port with over 7 square kilometers of land and a projected 10 dedicated shipping berths. The port is already doing brisk business, with its operations handling volumes that were not expected until 2008.

¶16. (U) The Port of Salalah has risen quickly to become a key transshipment hub for Maersk and its parent company A.P. Moller (APM). Operated by Salalah Port Services (SPS), which is 30% owned by APM Terminals and 20% owned by the government, (with the remaining 50% owned by pension funds, Omani corporations, and private investors) the port handled 2.23 million 20-foot equivalent units (TEUs) in 2004, ranking it as the world's 31st busiest port. Plans are ahead of schedule to expand the capacity of the port by adding two berths to the existing four in operation. Once completed, the $234 million expansion, shared roughly evenly between SPS and the Omani government, will increase capacity by 1.8 million TEUs, bringing total capacity to 4.38 million TEUs. The government, which is considering a package of incentives to promote a proposed free zone adjacent to the port, recently oversaw the signing of a memorandum of understanding between the Salalah Free Zone Corporation and the Jebel Ali Free Zone Authority in Dubai.

¶17. (U) The Omani government is also finalizing plans to develop a port at Duqm, a lightly populated area along the Arabian Sea. Master plans call for the construction of a drydock facility, oil refinery, and fish processing center to compete with Dubai's Jebel Ali port complex. The Duqm development plan also calls for the construction of an airport to facilitate passenger movements and cargo shipments.

Salalah Rising?

¶18. (U) The southern city of Salalah is banking on the growth of its port, free zone, and tourism industries in on-going efforts to develop its economy. Government and private sector officials have expressed confidence that proposed investments in these sectors will reshape Salalah by 2010 and position the region for sustained economic growth.

¶19. (U) Salalah's free zone is taking shape, as the Salalah Free Zone Company (SFZC) is working with the government to finish the first phase of the project, which includes the establishment of roads and utility lines, as well as the leveling of industrial plots. A proposed incentive package, which has yet to be officially approved by the Omani government, would include a 30-year tax holiday, duty-free treatment of imports and exports, permission for 100% foreign ownership, and tax-free repatriation of profits. Additional benefits include a one-stop shop for business registration and a 10% Omanization requirement. U.S.-based Octal Petrochemicals, India-based TVS Group, and government-supported Salalah Methanol are the anchor tenants.

¶20. (U) Salalah officials are depending on the growth of tourism for further economic growth. The construction of a

new $60 million airline passenger terminal capable of handling 2 million passengers per year will complement four new tourism projects by the time developments come on-line in ¶2010. Swedish charter flight service over the winter months has proven popular, filling hotels to near occupancy.

SME Development

¶21. (SBU) Top government officials agree that small and medium-sized enterprise (SME) development is a key component in promoting economic diversification in Oman. SME training and development in Oman is largely facilitated through the "Intilaaqah" (take-off) program, sponsored by Shell. The program has graduated over 3,000 participants in such courses as "Bright Ideas," "Become a Successful Owner/Manager," "Beat the Business Blues," and "Business Planning and Ownership." A paternalistic government culture and a small, mercantilist business structure that crowds out small enterprise are obstacles to SME development. Officials from Bank Muscat, which offers a full-service department for SME financing under the "al-Wathbah" banner, have noted that potential clients do not have the financial expertise to develop credible financial forecasts and are hesitant to put up their own cash in the business. We are looking to work with Shell to refresh Intilaaqah's SME training program. We are also hope to work with the Middle East Partnership Initiative (MEPI) and the Financial Services Volunteer Corps (FSVC) to promote the development of a small business association and a seminar on financing alternatives for SMEs.

Textiles in Decline

¶22. (U) Oman's textile industry continues to whither away in terms of value and employment, as government statistics confirm a steep drop in production over the past year. In 2005, textile and apparel exports shrank approximately 44% from the $137.1 million figure reported in 2004. Employment in the textile and apparel industry likewise continued its steady decline. Minister Maqbool has noted that the FTA holds out hope in reviving an industry decimated by the abolition of the quota system, given that almost all of Oman's garments were exported to the United States. Omani textile manufacturers are not as optimistic, however, that the upcoming implementation of the FTA will stop the decline. Oman, which used to have 32 garment factories before the removal of the quota system, now has only four. As the FTA nears implementation, there is interest from the textile sector in taking advantage of the FTA's provisions.

IPR Update

¶23. (U) The government is taking steps to enhance IPR protections in advance of the FTA's implementation. In addition to the regulatory changes previously mentioned, the government recently concluded a three-year, five million USD per year agreement with Microsoft for the use of the company's licensed products. The contract includes a commitment by Microsoft to invest two million USD per year in training programs for government employees and the general

community. Microsoft's country manager noted that the government's approval of the partnership agreement signified its commitment to protecting intellectual property. While recognizing that software piracy remains a concern in Oman, the country manager remarked that it's now generally more difficult to purchase pirated software in Oman.

¶24. (U) Regarding pharmaceuticals, once the U.S.-Oman Free Trade Agreement (FTA) comes into effect, the Ministry of Health will recognize all U.S. pharmaceutical product patent expiration dates. The Ministry will ask U.S. pharmaceutical companies, through their representatives in Oman, to submit a

master list of the products they produce.

Current U.S. Business Activity

¶25. (U) As the Omani government moves forward on its plans to diversify its economy, U.S. corporations are actively involved. As previously mentioned, Dow Chemicals is teaming with the Sultanate to build a petrochemicals complex that will serve as an anchor for the development of Sohar. Bechtel Corporation is constructing the first greenfield smelter in the region in over 25 years for the Sohar Aluminum Company, part of an overall $2.2 billion project. In addition, Occidental Petroleum will continue to invest in its Oman operations over the next five years.

¶26. (U) Arlington-based AES Corporation and New Jersey-based PSEG have participated in the Sultanate's privatization of power and water generation services. AES currently operates a natural gas-fired plant in Oman, which produces 427 MW of power and 20 million gallons (MIGD) of desalinated water per day. While the company recently lost a tender for the construction of a power and water desalination plant in Barka, it is expected to bid on additional power and water desalination projects in Sohar and Salalah, respectively. PSEG recently divested itself from Salalah Port Holdings, the holding company for Dhofar Power Company. PSEG led a consortium in March 2001 in creating Dhofar Power, which began producing power through its 240 megawatt generation facility in May 2003. GE is also interested in the privatization of Oman's water production facilities, but recently lost a tender for a project in Sur.

¶27. (SBU) Boeing is in discussions with Gulf Air to renew the airline's fleet with up to 47 medium and long-range aircraft. Questions about the future direction of Gulf Air linger, which has resulted in decision-making delays. National carrier Oman Air, which flies an all-Boeing jet fleet, waits in the wings with its own expansion plans. Oman Air will complement its fleet in 2007 and 2008 with the addition of Boeing 737-800 aircraft.
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